

REVIEW OF THE BOOK:

Realonomics, by Karim El-Ayoubi

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Reviewed by Edward J. Dodson / December 2025

I was introduced to the author's analysis a short time ago when the publisher (Shephard-Walwyn) posted an interview with him to help promote the book. Impressed by his straightforward and penetrating criticism of mainstream (i.e., neoclassical) economics, I immediately ordered the book. Full disclosure requires me to inform readers of this review that I was in near-full agreement with the author and hope this review helps to interest others in acquiring the book and absorbing its contents.

Karim El-Ayoubi pulls no punches. He explains, issue by issue, why neoclassical economics is useless to policy makers and to anyone else hoping to understand the dynamic connections between human behavior, market forces and socio-political arrangements and institutions. "How did it go so wrong?" he asks, offering an insight friends and supporters of the Henry George Institute will appreciate:

"In their book 'The Corruption of Economics', Mason Gaffney and Fred Harrison argue that in the late 19th century and early 20th centuries, there was an active campaign by vested interests to promote a new economic theory, which became known as Neoclassical Economics, as a way of protecting their own financial interests." [p.9]

Henry George is credited by El-Ayoubi for triggering this mainstream response in defense of the status quo. He repeats a few of the details from those provided by Gaffney and Harrison but does not go on to embrace Henry George's analysis that landed privilege is the primary cause of wealth concentration and systemic instability.

High on the list of the author's condemnations of neoclassical theory are almost all of the assertions made, for the simple reason that what occurs in the real world contradicts the neoclassical model. In the real world, no one has perfect information. In the real world, consumer preferences change from moment to moment. In the real world, consumers do

not always or even regularly make utility maximizing decisions. He goes on to explain why the condition of equilibrium at either the micro or macroeconomic level and the supply-demand graphs employed to convey the theoretical relationship contradict actual behavior. This would have been a good point in the book to explain that the supply curve for nature (i.e., for the factor of production, land) is vertical, but he says nothing about land markets or the fact that the supply of land is inelastic. His suggestion to economists?

Why not, instead, base your model on the idea that prices reveal preferences, which allows you to measure everything in simple, monetary terms? [p.24]

The greater part of the book is devoted to explaining how the creation of money and its control by the banks determines whether societies achieve stable economic growth or recurring cycles of boom and bust. He criticizes the neoclassical “static equilibrium model” as useless because “the real world is dominated by cycles.” [p.26] He provides example after example of the fantasy world created by neoclassicals in pursuit of mathematical certainty and graphical simplicity. These were, he argues, the means by which they did their best to hide the truth about the destructive consequences imbedded in existing law and public policy:

The Neoclassical school buried the concept of economic rent, protecting the interests of the rentier class, and then argued for laissez-faire capitalism, protecting the interests of capitalists.” [p.33] ... Worse still, if Harrison and Gaffney are correct, it was a corrupt enterprise all along, one that has done untold harm to the world. [p.36]

I would have added here that the distinction between the rentier and the capitalist was becoming less and less clear. While there remains a landlord class in the United Kingdom, many individuals, firms, charities and other organizations are owners of land and capital goods. Just one firm owns over 11,000 residential properties offered under lease to tenants. At the same time, most office buildings in London sit on land owned by The Crown Estate, Grosvenor, offshore firms, foreign investors and others.

Mr. El-Ayoubi continues the practice of referring to the market for residential properties as the “housing market” and to the rising cost of acquiring land and whatever housing units exist on the land as “house prices.” Thus, even this critic of neoclassical economics falls into their trap by not reminding readers that *housing* is a depreciating asset and that what appreciates over time is the value of the location where the house was constructed.

Neoclassical economists also receive poor marks for assertions about the role of money in an economy. In his treatment of the history of money creation he takes us back to the early role of the goldsmiths and the eventual introduction of receipt money to replace the actual payment in gold for purchases. When governments mandate the payment of

taxes with paper or digital currency, a new economic world arises. The idea of the bank as a financial intermediary comes to an end, as neither precious metals nor even paper currency or a digital equivalent are necessary as assets when “banks create money and inject it into the economy in the form of loans.” [p.38] As is now widely understood, this trick is accomplished by some creative accounting. Within certain regulatory limits, banks do not need to possess cash deposits in order to book a new loan. One crucial outcome has been the dramatic increase of lending for the purchase and refinance of residential property:

“In this situation, given the limited supply of houses [residential properties] coming to market, banks end up funding a competition that bids up house [land] prices.” [p.39]

A few pages later, he offers an unfortunate misunderstanding of basic accounting. He states that “in double-entry book-keeping Assets must always equal Liabilities.” [p42] I know of no business (whether a bank or otherwise) that survives very long when net worth is zero. Net worth (for those who somehow were never introduced to profit-generation as a key outcome of business activity) is what is left over after liabilities are subtracted from assets.

If only El-Ayoubi recognized the importance of distinguishing the market dynamics of housing versus the market dynamics of the land on which housing is constructed. He does not write anything about the financing provided to those who acquire land to hold until they conclude the market has ripened and their opportunity for maximum gain has arrived. He then goes on to describe a condition the neoclassical economists would also embrace – maximum capacity:

“[I]f banks extend a lot of credit to consumers, they will go out and spend, ...increasing the total (or ‘aggregate’) demand for goods and services. ...However, once the economy reaches its maximum capacity to supply goods and services, output cannot grow any further. At this point, we end up with more money chasing the same amount of goods and services, and the excess money eventually feeds into higher prices.” [p.39]

Let us examine this assertion. There is no limit to the supply of goods and services. Even when the hoarding of land and other natural resources is mounting, producers find ways to reduce the costs of production. Those producers who operate their businesses on land leased from someone are in a race against the accelerated redistribution of income from themselves to non-producing rentier interests and the accelerated level of stress this imposes on themselves, on consumers and on debtors. When prices of goods and services are increasing faster than individual and household incomes, central banks tighten credit by raising interest rates and tightening reserve requirements on member banks. None of

the central bank tools have ever prevented the cyclical downturn in land markets that makes its way through an economy. And, when the downturn arrives, asset values drop. El-Ayoubi reminds us of what happened back in 2008:

“[T] the banks discovered that a large proportion of their [subprime mortgage] loans had gone bad simultaneously. Their Assets – the loans – were suddenly worth a lot less than they thought, but their Liabilities were unchanged, making them technically insolvent.” [p.50]

This is a simplified description of what occurred, of course. Few commercial banks held either the conventional or subprime mortgage loans in their portfolios as whole loans. Most were pooled into mortgage-backed securities and sold to investors. The banks made representations and warranties to investors regarding the quality of the loans, so when the borrowers defaulted, a long process of challenging the legitimacy of the representations and warranties determined whether the bank or the investor absorbed the losses. And, of course, the lawyers were the first to be paid.

El-Ayoubi joins with other critics of the private banking sector who argue that banks have abandoned lending for business expansion in favor a making loans secured by real estate as collateral. Lending to a business is relationship banking:

“It means understanding the client, the market their client operates in, and the financial health of their business.” [p.51]

And, the consequences to real economic growth are significant. None of this is covered by economics professors who are teaching from the textbooks written by their neoclassical colleagues. Corporations are able to raise money for expansion by issuing shares of stock or bonds. Sole proprietorships or partnerships must borrow from banks, where loans are difficult to obtain without real estate or other assets offered as collateral. The inevitable result has been fewer and fewer producers funded by fewer and fewer financial institutions. All are now so important to economies that governments cannot allow them to fail.

On page 86 of the book, El-Ayoubi refers readers to the books by Fred Harrison and Phil Anderson “if you want to understand the economic cycle.” Yet, he looks to Hyman Minsky’s analysis of economic cycles rather than that offered by Henry George. Of Minsky’s insights, he writes:

“He considered the interactions between four main groups of actors: industrial capitalists, bankers, workers and government.” [p.84]

Where, we rightfully ask, are the land bankers and land hoarders in Minsky’s analysis? The closest he comes to recognizing their importance is how debt contributes to asset price bubbles. Historically, banks have made *land loans* even when there are no

immediate plans for development. They are riskier for the lender and therefore require higher down payments (often 20-50%), stricter credit, higher interest rates, and shorter terms than conventional mortgage loans. Yet, El-Ayoubi believes “Minsky’s instability theorem should be standard teaching in economics.” [p.89]

Late in the book he offers his thoughts on the merits of modern monetary theory and what might occur if the government bonds held as assets by central banks were simply cancelled. He does not go farther along this line of reasoning by discussing the probable impact of government-created money used to pay investors the principle owed when government bonds mature. For the United States this would put trillions of dollars into the hands of investors who then must find non-government bonds in which to invest or shares of stock, or land, or improved real estate. Secretly writing off half of the debt held by the Federal Reserve is as far as his thinking goes:

“The money has already been spent, the goods and services already purchased; changing some numbers on the Fed’s balance sheet years later, in secret, changes nothing in the real economy.” [pp.153-154]

El-Ayoubi might benefit by digging up a copy of Frederick Lewis Allen’s 1931 book, *Only Yesterday*. What drove more and more money into the stock market was the collapse of the nation’s property markets, which also led to the insolvency of thousands of banks across the United States. Speculators and their banks drowned when the Florida boom collapsed in the wake of strong hurricanes, but the land problem was actually widespread, as Allen details:

“At the very outset of the decade there had been a sensational market in farm lands, caused by the phenomenal prices brought by wheat and other crops during and immediately after the war. Prices of farm property leaped, thousands of mortgages and loans were based upon these exaggerated values, and when the bottom dropped out of the agricultural markets in 1920-21, the distress of the farmers intensified by the fact that in innumerable cases they could not get money enough from their crops to cover the interest due at the bank or to pay the taxes which were now levied on the increased valuation. Thousands of country banks, saddled with mortgages and loans in default, ultimately went to the wall.”

Land prices climbed in many cities as “four million discouraged Americans left the farms” for the cities and their rapidly-developing suburbs, with land grabbed by speculators:

“So furious was the competition among developers that it was estimated that in a single year there were subdivided in the Chicago region enough lots to accommodate the growth of the city for twenty years to come ... and that by the end of the decade enough lots had been staked out between Patchogue, Long Island, and the New York City limits to house the entire metropolitan population of six millions.”

El-Ayoubi remains focused throughout the book on Minsky's disaggregated theory of credit and the quantity theory of money as the determining factors for understanding what happens in the real world. The existing structure fuels bigness and bigness results in monopolies and an ever-present risk of systemic collapse. In the final two pages of the book, he lists ten steps required to tame the system. The public capture of economic rents from land, from other natural assets and from competition-limiting licenses is not among them.
